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SUBJECT: TREASURY U/S ADAMS' VISIT TO SINGAPORE

¶1. (SBU) Summary: In meetings with Singapore's top leadership, Treasury Under Secretary for International Affairs Timothy Adams emphasized U.S. commitment to the Southeast Asia region. Prime Minister Lee said that U.S. preoccupation with other parts of the world fueled a perception of neglect. He stressed that the United States needed to play a key role in ASEAN integration through fora such as the East Asia Summit (EAS). Both PM Lee and Senior Minister Goh were relatively unconcerned about downside risks associated with the Chiang Mai Initiative, arguing that it provided reassurances to regional governments and a bond market alternative to the IMF. U/S Adams underscored U.S.-led efforts to increase Asia's IMF representation. Despite Singapore's recent strong economic performance, PM Lee stressed the need to close a growing income gap through better education, workforce retraining, and continued promotion of a high savings rate. PM Lee asserted that obstacles to negotiating a bilateral Double Taxation Agreement (DTA) could be surmounted. FM Yeo observed that rising protectionist sentiment in the United States, and in particular the Dubai ports deal controversy, was fueling the perception that Muslim money was not welcome in the West; Singapore was beginning to see an increase in flows of petrodollar wealth to Southeast Asia as a result. SM Goh told U/S Adams that he worried most about the destabilizing effects of terrorism. He welcomed reduced tensions between China and Taiwan, but said that rising strains between China and Japan were reverberating throughout the region. End Summary.

¶2. (U) Visiting Singapore for the first time February 24-26, Treasury U/S Adams met with Prime Minister and Finance Minister Lee Hsien Loong, Senior Minister and Monetary Authority of Singapore Chairman Goh Chok Tong, and Foreign Minister George Yeo. He also met with Government Investment Corporation (GIC) Special Investments President Dr. Teh Kok Peng, Singapore-based financial analysts and business representatives from the U.S.-ASEAN Business Council.

Overcoming Misperceptions of U.S. Disinterest

¶3. (SBU) U/S Adams told PM Lee that part of the reason for his visit to Singapore was to reaffirm U.S. commitment to the region. PM Lee said that the perception of a disinterested United States was not misplaced given its many distractions elsewhere. He lamented this development, stressing that the region was changing, and not just in terms of the China-India economic growth story; the United States also needed to keep an eye on other players in the

region. He noted that Singapore's trade with China had increased nearly 50 percent in the past year and about 30 percent with India, albeit from a lower base. Together, China, Hong Kong and Taiwan were now a larger trading partner of Singapore's than the United States, he observed.

U.S. Role in ASEAN Integration

¶4. (SBU) Asked how the United States should respond to ASEAN integration efforts such as the EAS, PM Lee said the United States must participate in such fora.

Regionalization was inevitable, he argued; the only way for the United States to cope would be to establish and maintain deep links across the Pacific. He noted that even ASEAN members seemingly more resistant to or suspicious of U.S. engagement (e.g., Indonesia) privately welcomed a U.S. presence in the region as a source of stability. PM Lee suggested that it would be a real loss if the United States distanced itself from ASEAN over Burma. FM Yeo stressed that Asia could achieve another generation of peace, but only if the United States stayed involved.

¶5. (SBU) SM Goh noted that, although China's rise had helped spur greater ASEAN integration, this process began much earlier. He recalled wryly that ASEAN was much more serious about integration now than it had been during his earlier stint as Trade and Industry Minister when goods proposed by his neighbors for preferential treatment included things like snow plows. Currently, this process was well underway, underpinned by a number of free trade agreements, including the ASEAN and China-ASEAN FTAs, as well as an increasing number of open skies agreements, he

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said.

Chiang Mai Initiative a Useful "Psychological Arrangement"

¶6. (SBU) U/S Adams said he worried that, in addition to the EAS, undertakings such as the Chiang Mai Initiative were moving Southeast Asia toward increasing regionalization and less engagement with established global institutions. PM Lee said that he did not anticipate any negative fallout from the Chiang Mai Initiative, suggesting that it was only natural for regional governments to support development of a bond market alternative to the International Monetary Fund (IMF). Chiang Mai will not solve all our problems, but it will help mitigate future risks, he concluded. SM Goh deemed the Chiang Mai Initiative a useful "psychological arrangement" that reassured countries in the region, but observed that if there were another financial crisis along the lines of 1997-98, no country would be immune. He highlighted a similar process in developing the Asian Bond Fund, in which eleven Southeast Asian central banks participated. Asked if India were involved, SM Goh said that this would be possible under the EAS mechanism. He dispelled the notion of a common Asian currency, arguing that economic disparities among potential participants made this a long-term endeavor, at best.

Increasing Asia's IMF Presence

¶7. (SBU) U/S Adams said that the United States was leading an effort to reorganize the IMF's representation to give more weight to Asian member countries. He cautioned that European members, which would be obliged to relinquish IMF Board seats in order to implement this restructuring, were resisting these efforts.

Singapore's Economy: Strong but Uncertain

¶8. (U) Although Singapore had achieved strong economic

growth in 2004 and 2005, longer-term prospects depended on strategic restructuring in areas such as education and workforce retraining, PM Lee explained. Lower income households were falling behind. Consistent annual growth averaging 9 to 10 percent was a thing of the past and the "trickle down" effect had commensurately diminished in recent years, he said. PM Lee stressed that the government could not sit idly by, nor could it promote a welfare state system without engendering European-style side-effects. Singapore instead had opted to encourage a high savings rate and to fold a portion of these assets into the budget to benefit lower income families. This mechanism, however, did not fully address the wealth gap but rather only provided reassurances to these groups, he admitted.

¶9. (U) SM Goh highlighted Singapore's ageing population and the need to compete with China and India as particular areas of concern for the economy; in addition, many Singaporeans, well educated and fluent in English, were pursuing opportunities overseas and not returning. "If we do not keep running ahead of our competition, we will fall behind," he remarked. SM Goh denied that Singapore's very high savings rate was a deliberate hedge against the country's demographic transition, attributing it primarily to Singapore's mandatory pension system, the Central Provident Fund.

¶10. (SBU) Not believing in a post-industrial society, Singapore emphasized strengthening both the services and manufacturing sectors, PM Lee said. Hong Kong may have relinquished its manufacturing base to the Pearl River Delta across the border in China, he observed, but if Singapore were to do something similar with Malaysia or Indonesia, the result would be an inefficient "two countries, two systems" arrangement.

Tax Treaty

¶11. (SBU) PM Lee said that Singapore greatly valued its excellent relationship with the United States, best exemplified by our Strategic Framework and Free Trade

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agreements. He expressed confidence that both countries could conclude a DTA that would further bolster bilateral economic ties. Although Singapore had certain interests to protect, obstacles to negotiating a DTA such as agreed mechanisms and obligations concerning information exchange and limitation of benefits could be surmounted, he asserted. During U/S Adams' meeting with the U.S.-ASEAN Business Council, representatives from IBM, Citibank, and NOL expressed strong support for a U.S.-Singapore DTA.

Rising U.S. Protectionism and China, the Middle East

¶12. (SBU) U/S Adams expressed concern about growing protectionism in the United States, directed primarily at China and most recently at Dubai following Dubai Ports World's proposed \$6.8 billion acquisition of P&O. PM Lee concurred, observing that Washington seemed obsessed with the purported China threat during his visit last year. U/S Adams warned that a hard landing of the Chinese economy would precipitate serious repercussion throughout the global economy, particularly in the commodities and U.S. securities markets. PM Lee assured U/S Adams that China did not want to clash with the United States, although it might continue to "cheat around the edges." FM Yeo said that the United States needed to deftly hold China accountable for its actions. This was especially challenging, he observed, since China appeared to understand the United States better than the United States did China.

Protectionist Tendencies Undermine Doha

¶13. (SBU) Asked about Singapore's views of the Doha Round, PM Lee said that success was critical. He criticized the overall negative tone among WTO members that made it difficult to manage protectionism globally. U/S Adams noted that a collapse of the Dubai ports deal could conceivably undermine the Doha process and the free trade principles the United States espouses.

Unwelcome in West, Petrodollars Flowing to Singapore

¶14. (SBU) FM Yeo expressed similar concern about the rising protectionist tide, and noted that the Dubai ports controversy solidified the growing perception that Muslim money was not welcome in the West. He said that there had been a shift in flows of petrodollar wealth toward financial centers like Singapore and that the government was encouraging development of Islamic banking as one way to tap into this asset stream. While certain financial analysts told U/S Adams they had noticed some up-tick in the amount of petrodollars coming into Singapore, one Singapore-based U.S. bank representative described the increase as "huge."

Terrorism Number One Concern

¶15. (SBU) Asked what he worried about most, SM Goh questioned whether terrorism could be defeated. It was imperative that the United States stay the course in Iraq and remain firm with Iran lest the terrorists become emboldened, he warned. Singapore was surrounded by Muslim neighbors with populations that were becoming increasingly conservative, he said. SM Goh felt reassured by recent statements by Indonesia's Islamic party leaders that they stood for fighting corruption and not for promoting a theocracy. He observed that the problems in the southern Philippines and Thailand had more to do with terrorism "riding on the backs" of Islam than with the religion itself.

China, Taiwan, Japan

¶16. (SBU) SM Goh said that he was heartened to see a reduction in tensions over the past year or so between China and Taiwan. President Bush's statements to Taiwan President Chen Shui-bian and China's Anti-Secession Law had both helped stabilize the situation, he observed; China was also learning how to live with Taiwan-style democracy and had therefore adopted a more nuanced approach to cross-Strait

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relations. Although he did not foresee open conflict between China and Japan, increasing tensions fueled by rising nationalism on both sides were reverberating throughout the region, he said.

¶17. (U) Treasury Deputy Director for South and Southeast Asia John Ciorciari, traveling with U/S Adams, cleared this message.

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